





THEODORE E. CUMMINGS\*

J. HOWARD EDGERTON\*

HAROLD L. FIERMAN\*

ALFRED J. GOCK

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

\* Members of the Executive Committee



HAROLD L. FIERMAN, Chairman of the Board

THEODORE E. CUMMINGS, President and Chairman of the Executive Committee

HAROLD G. WARD, Executive Vice President

FRANCIS W. DANIELSON, Vice President, Assistant to the President

BRUCE J. CAMPBELL, Vice President-Finance and Treasurer

ALBERT GOLDSTEIN, Vice President

GAIL J. BURCK, Secretary

## TRANSFER AGENTS

The Marine Midland Trust Company of New York, N. Y. The Corporation Trust Company of Jersey City, N. J.

### REGISTRAR

Chemical Bank New York Trust Company, New York, N. Y.

#### **AUDITORS**

Ernst & Ernst

#### COUNSEL

Kaye, Scholer, Fierman, Hays & Handler, New York, N. Y. Robert N. Gold, Beverly Hills, California

## FOOD GIANT MARKETS, INC. | PRINCIPAL OFFICE

Post Office Box 2493

12500 East Slauson Avenue / Santa Fe Springs, California



TO OUR SHAREHOLDERS:

In 1961 your Company has continued to expand rapidly and during the past year has made significant steps in further diversification in the retail field. Food Giant is today a merchandising complex composed of forty-five supermarkets, five package liquor stores, three low-cost distribution centers, and ten hardware, hard goods and do-it-yourself operations. Additionally, we own a milk company processing and packaging condensed milk and manufacturing and distributing allied products and are the controlling stockholder of a wholesale milk and bread distributing company.

FINANCIAL In order to more properly present to shareholders the financial position of recently acquired low-cost distribution centers your Company has changed to a fiscal year which will end in late January or early February in future years. For this reason, your report for this year is for a fiscal period of 56 weeks ended January 28, 1962.

Consolidated net sales of Food Giant and its subsidiaries for the 1961 fiscal period were \$196,532,509 as against \$136,645,328 for the 52 weeks ended January 1, 1961. Profit before taxes of \$5,700,734 compares with previous 52 weeks' pre-tax earnings of \$5,763,591. Consolidated net income after federal income tax was \$3,011,134, which after provision for preferred dividends is equivalent to \$1.05 per share on 2,675,749 shares of Common Stock outstanding, or to be issued, at or as of January 28, 1962. Net earnings for 1960 were

\$3,049,591, which after provision for preferred dividends amounted to \$1.21 per common share on the 2,302,004 shares outstanding at the close of that year, after adjusting for the three for two stock split in July, 1961.

While profits for the first half of 1961 were below expectations, earnings for the remainder of the year were more nearly comparable to Food Giant's past earnings pattern and our most recent figures indicate favorable sales and earnings trends for 1962. The decline in profits for the first half was attributable to general conditions in the industry and substantial non-recurring legal, accounting, and administrative expenses related to investigation of, and negotiations for, various companies.

Our Balance Sheet at the 1961 fiscal year end continued to remain most satisfactory and we do not anticipate the need for equity or funded financing to accomplish any of our present program.

Two regular semi-annual cash dividends of \$.20 per share each on the Preferred Stock were paid in 1961. In addition, two semi-annual stock dividends of 2% each were paid on the Company's Common Stock.

EXPANSION PROGRAM Your Company believes in the future of supermarkets and will continue to open new units in well-located areas. Some of the locations now being leased are in densely

populated areas in metropolitan Los Angeles where a substantial market exists and we are insulated and protected against excessive competition. There are presently seventeen supermarkets in the planning stages or under construction and nine additional locations in process of final negotiation; we expect to open 10 to 12 new markets in 1962, if no delays in construction occur.

The low-cost one-stop shopping center has been welcomed by the buying public and is, in our opinion, sound business offering unlimited merchandising opportunities. In September, 1961, your Company entered this field by acquiring Unimart, Inc., operating two low-cost distribution center stores. In November, 1961, a third store was opened in Pomona and the three are presently operating at an annual sales rate in excess of \$30,000,000. We have obtained favorable leases for Unimart stores in six additional locations and plan to open three this year.

On January 18, 1962, Food Giant signed an agreement for exchange of stock with B. E. Enterprises, Inc. operating a business known as Builders Emporium. Certain legal steps routine in nature which will be obtained in due course are necessary to finally effect the merger. Our financial statements give effect to the transaction as a pooling of interest. This Company, over a period of years, has established for itself a reputation as the finest hardware, hard goods, do-ityourself operation in the West. There are presently in operation three Builders Emporium units, one conventional hardware store and six lease departments in non-affiliated low-cost distribution centers. Approximately six locations adjoining Food Giant Markets are being negotiated by Builders Emporium and we anticipate that within the near future new Builders Emporium stores will have been opened. In four existing Food Giant Markets we plan to install Builders Emporium departments and in several Food Giant stores where we are testing the most effective method of merchandising these specialty

products, nursery and garden supply centers have been established.

In April 1961, your Company took steps to acquire a chain of nine stores known as "McDaniel's Markets," which was only a portion of the assets of that company. Legal technicalities, resulting from bankruptcy proceedings of McDaniel's, have prevented Food Giant from taking final possession. On January 30, 1962, the matter was reviewed by the Bankruptcy Court and while no final action has been officially taken, in the near future we are hopeful for a decision which will enable us to effectively integrate these units into the Food Giant chain, and include the future sales and earnings of this group in Food Giant statements.

To accommodate for all these divisions and operations, Food Giant has recently completed construction and now occupies a new streamlined 325,000 square foot warehouse and distribution center located on a portion of a 25-acre site in Santa Fe Springs which provides ample room for future expansion. This warehouse is fully automated and has the most modern equipment available which will materially increase operating efficiency with resultant savings in costs.

Now, for the first time, our new warehouse and administrative office offers space to accommodate all of our personnel and we are able to coordinate and integrate all buying, advertising, accounting, merchandising, supervision, personnel, and other administrative phases of our operation.

Your Management has authorized the expenditure of \$200,000 for automated equipment for Meyenberg-Old Fashion Products Company which will immediately increase efficiency and productivity, enable this division to expand its product lines, and more effectively serve its over 200 franchised Foster Freeze outlets.

Your Company is the controlling stockholder of Golden Creme Farms, Inc., which is undergoing an extensive remodeling program, and when completed will more than double its productivity from 26,000 pounds to 55,000 pounds of milk per hour. In addition, by July 1962, we will have completed the installation of a fully automated bread and sweet goods bakery plant.

ADDITIONS TO MANAGEMENT Your Company is proud to have been able to strengthen its Management staff during the past year in each of its dynamic divisions by the addition of men of proven ability.

- 1. Mr. Harold Ward, Executive Vice President, former General Sales and Merchandising Manager of Von's Grocery Co., 39 years of age and a veteran of more than 20 years in the grocery business.
- 2. Mr. Bruce Campbell, Vice President-Finance and Treasurer, previously Financial Vice-President of Foremost Dairies. He is 49 years of age, a CPA, and holds a Masters Degree from the University of Southern California.
- 3. Mr. Seymour Rabin, President and founder of the Unimart division, with 15 years experience in the retail food distribution field. He is a graduate of San Diego State College and is 42 years of age.
- 4. Mr. Gerald Block, President of the Builders Emporium division is 31 years of age, a graduate of the School of Business, University of California at Los Angeles, was formerly President of Pixley & Ehlers restaurant chain in Chicago, and President of General Stores Corporation of Chicago, a chain of sixty drug stores.

These men, together with the experienced executives who have guided Food Giant through its early formative years, constitute a well-balanced and experienced team which will, we believe, effectively carry out Food Giant's growth program.

Company for the year 1962 and future years is most promising. We have commented on indicated favorable sales and earnings trends for 1962. Our newly acquired operations are well-entrenched and profitable and expansion plans are proceeding on schedule. Our present operations and future plans form a sound basis for continued increases in sales and earnings.

We wish to welcome to Food Giant the employees and stockholders of Unimart and Builders Emporium and to express our appreciation for the loyalty and interest of our employees, shareholders, customers and suppliers.

Respectfully submitted,

F. Janine

THEODORE E. CUMMINGS, President

HARQLD L. FIERMAN, Chairman of the Board

#### IN MEMORIAM

We deeply regret the untimely death of Director Alfred J. Gock on April 6, 1962, whose passing will be keenly felt.



STATEMENT OF CONSOLIDATED FINANCIAL POSITION\* · FOOD GIANT MARKETS, INC. AN

# ASSETS

| CURRENT ASSETS  |                      |              |
|---|----------------------|--------------|
| Cash  |                      | \$ 5,296,928 |
| Notes and accounts receivable:                                  | 0 107100             |              |
| Notes and contracts   | \$ 137,132           |              |
| Trade accounts  | 2,559,939<br>874,241 |              |
|   | \$ 3,571,312         |              |
| Less allowance for doubtful                                     | 38,731               | 3,532,581    |
| Merchandise inventories – generally at lower of average         |                      |              |
| cost or market  |                      | 16,247,078   |
| Prepaid expenses  |                      | 945,884      |
| Properties and equipment, subject to agreement of sale and      |                      | 077 077      |
| lease-back, less interim bank financing — Note B                |                      | 277,275      |
| TOTAL CURRENT ASSETS  |                      | \$26,299,746 |
| INVESTMENTS AND OTHER ASSETS                                    |                      |              |
| Investment in McDaniel's Markets – Note C                       | \$ 2,885,980         |              |
| Investments in affiiliate (\$1,392,705) and other capital       |                      |              |
| stocks — at cost  | 1,561,121            |              |
| Liquor licenses – at cost                                       | 797,784              |              |
| Rental and other deposits                                       | 333,624              |              |
| Trademarks, patents, and franchises – at cost less amortization | 146,407              |              |
| Deferred charges  | 515,572              | 6,240,488    |
|   | I II                 |              |
| PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost           |                      |              |
| Land (\$70,250), buildings, fixtures and equipment, lease-      |                      |              |
| holds, and leasehold improvements                               | \$23,841,696         |              |
| Less allowances for depreciation and amortization               | 6,970,004            |              |
|   | \$16,871,692         |              |
| Deposits on purchase of equipment having a total cost of        |                      | 12 002 1-2   |
| \$210,000   | 133,443              | 17,005,135   |
|   |                      | \$49,545,369 |

# LIABILITIES

| Notes payable — unsecured Trade accounts payable Salaries and wages, payroll taxes, and amounts withheld from payrolls Dividend payable Accrued taxes, interest, rent, and other expenses Federal taxes on income — estimated Current portion of long-term debt TOTAL CURRENT LIABILITIES  |  | \$ 331,628<br>12,214,866<br>1,477,248<br>90,480<br>1,526,790<br>1,476,026<br>243,508<br>\$17,360,546 |
|--|--|--|
| LONG-TERM DEBT   |  |  |
| 5.9% promissory note payable to insurance company – payable \$770,000 annually, commencing February 1, 1963, balance due February 1, 1975 – Note D   | \$10,000,000<br>578,193<br>211,021<br>\$10,789,214<br>243,508                                      | 10,545,706<br>211,461  |
| STOCKHOLDERS' EQUITY   |  | 211, 101   |
| Capital stock:   |  |  |
| Preferred Stock, par value \$10 a share — Note F:  4% Cumulative Convertible Preferred Stock; authorized 877,490 shares, converted 425,276 shares, outstanding 452,214 shares  Other, not presently defined; authorized 522,510 shares, none outstanding  Common Stock, par value \$1 a share — Notes A, F, and G: Authorized 5,000,000 shares; issued and outstanding 2,693,938 shares, including 98,189 shares in treasury.  To be issued — 80,000 shares  Capital surplus  Earned surplus — Note D  Less Common Stock in Treasury — 98,189 shares at cost | \$ 4,522,140<br>-0-<br>2,693,938<br>80,000<br>11,691,224<br>4,629,753<br>\$23,617,055<br>2,189,399 | 21,427,656   |
|  |  | \$49,545,369   |
|  | -  |  |



STATEMENT OF CONSOLIDATED INCOME AND SURPLUS\*

FOOD GIANT MARKETS, INC. AND WHOLLY-OWNED SUBSIDIARIES Fifty-six weeks ended January 28, 1962

# STATEMENT OF CONSOLIDATED INCOME

| Net sales   |                                 | \$196,532,509<br>155,098,628            |
|---|---------------------------------|---|
| Selling, administrative, and general expenses   | 1                               | \$ 41,433,881<br>36,336,174             |
| Other income (capital gains, rents, dividends, and sundry earnings)   |                                 | \$ 5,097,707                            |
| earnings)   |                                 | \$\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ |
| Other deductions:   |                                 | φ 0,020,009                             |
| Interest on long-term debt Other interest Miscellaneous   | \$ 595,387<br>132,749<br>97,989 | 826,125                                 |
| INCOME BEFORE INCOME TAXES  |                                 | \$ 5,700,734                            |
| Estimated federal income taxes  |                                 | 2,689,600                               |
| NET INCOME  |                                 | \$ 3,011,134                            |
| Provision for depreciation and amortization of property, plant, and equipment amounted to \$2,520,046 for the year  |                                 |   |
| STATEMENT OF CONSOLIDATED SURPLUS   | CAPITAL<br>SURPLUS              | EARNED<br>SURPLUS                       |
| Balance at beginning of period  | \$ 6,535,958                    | \$ 4,831,318                            |
| Unimart, Inc. B. E. Enterprises, Inc.   | 682,963<br>520,000              | 171,679<br>22,405†                      |
| Revised balance at beginning of period  | \$ 7,738,921                    | \$ 4,980,592                            |
| that of Common Stock issued (95,219 shares) on conversion 2% stock dividends paid — 31,380 shares on June 15, 1961 and 50,839 shares on December 15, 1962, at approximate | 1,736,552                       |   |
| market value at date of issuance  | 2,912,678                       | 2,994,897†                              |
| Issuance of \$15,139 shares of Common stock under stock   | 100 100                         |   |
| option agreements   | 139,106<br>836,033*             |   |
| sents three semi-annual dividends   |                                 | 311,919†                                |
| Net income for the period   |                                 | 3,011,134                               |
| cessor corporation  |                                 | 55,157†                                 |
| Balance at end of period  | \$11,691,224                    | \$ 4,629,753                            |

<sup>\*</sup> See notes on financial statements

#### NOTES TO FINANCIAL STATEMENTS

Food Giant Markets, Inc. and Subsidiaries/January 28, 1962

NOTE A — ACQUISITIONS AND PRINCIPLES OF CONSOLIDATION. On September 15, 1961, the Company issued 120,000 shares of its Common Stock in exchange for all of the outstanding capital stock of Unimart, Inc. On January 18, 1962, the Company entered into an agreement to Issue 80,000 shares of its Common Stock in exchange for all of the outstanding capital stock of B. E. Enterprises, Inc. The exchange has been approved by the stockholders of B. E. Enterprises, Inc.; however, completion of the exchange has been delayed pending receipt of (1) a ruling from the Internal Revenue Service that the exchange will constitute a non-taxable reorganization, and (2) a permit to issue stock from the Corporation Commissioner of the State of California. Company counsel is of the opinion that both of these matters are routine in nature and will be obtained in due course, and the accompanying financial statements give effect to the transaction. The acquisitions have been treated for accounting purposes as poolings of Interests.

The consolidated balance sheet includes the assets and liabilities of the Company and its wholly-owned subsidiaries (Meyenberg-Old Fashion Products Company and Unlmart, Inc.) as of January 28, 1962, and of B. E. Enterprises, Inc., as of February 3, 1962. The statement of consolidated income includes the results of operations of (1) the Company, Meyenberg-Old Fashion Products Company and Unimart, Inc., for the period of fifty-six weeks ended January 28, 1962, and (2) B. E. Enterprises, Inc., for the period of fifty-three weeks ended February 3, 1962. Significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE B — PROPERTIES SUBJECT TO SALE AND LEASE-BACK. Properties subject to sale and lease-back includes the cost (\$2,723,766) of the Company's warehouses and offices presently under construction less interim bank financing of \$2,600,000. It is estimated that the cost to complete the properties will be an additional \$295,000. The properties are to be sold to Giant Realty, Inc., a wholly-owned subsidiary, which had no assets or liabilities at January 28, 1962. A third party has agreed to loan to the subsidiary the full cost of the property. The Company does not intend to consolidate the financial statements of Giant Realty, Inc.

NOTE C - INVESTMENT IN McDANIEL'S MARKETS. In April 1961, the Company entered into an agreement to acquire nine McDaniel's supermarkets and on April 10, 1961, took over the operation of these markets. The sale was consummated on August 3, 1961; however, subsequent to that date an involuntary petition in bankruptcy was filed against the seller and the Bankruptcy Court has questioned the propriety of the sale. In the opinion of the Company counsel, this transaction should not be considered consummated until such time as the Court makes some disposition of the matter. Accordingly, the transaction has been treated in the accompanying financial statements as though the Company were agent for the sellers. Operations of the markets have been excluded from the statement of consolidated income, and assets and liabilities related to the markets are shown on the statement of consolidated financial position as investment in McDanlel's Markets, in connection with this transaction, the Company has been making payments on equipment purchase contracts having aggregate unpaid balances of \$300,000 at January 28, 1962, due in installments to January, 1965.

NOTE D - LONG-TERM DEBT. The loan agreement dated February 1, 1960, relating to the note payable to an insurance company places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of \$7,000,000 to December 31, 1962, and \$8,000,000 thereafter. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net earnings which are defined in the agreement as the sum of \$600,000 plus 70% of consolidated net earnings subsequent to January 1, 1960. At January 28, 1962, earned surplus available for the payment of dividends was \$2,069,410.

NOTE E — DEFERRED FEDERAL TAXES ON INCOME. Provision for depreciation of property, plant, and equipment is computed on the straight-line method for financial reporting purposes and on an accelerated method on certain items for tax purposes. In addition, certain pre-opening costs are deferred for financial reporting purposes and expensed for tax purposes. The related tax benefit is deferred and will be credited to income in subsequent periods when the related book charges to income exceed allowable federal income tax deductions.

NOTE F — PREFERRED STOCK. The Preferred Stock is Issuable in series under such terms and conditions as the Board of Directors may determine. The two series presently outstanding may be redeemed at any time at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution are entitled to \$10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of three-quarters of a share of Common Stock for each share of Preferred Stock. At January 28, 1962, a total of 339,160 shares of Common Stock were reserved for such conversion.

NOTE G — STOCK OPTIONS. The Company's restricted stock option plan provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At January 1, 1961, options for 36,608 shares were outstanding and 25,294 shares were reserved for future grants. During the period of fifty-six weeks ended January 28, 1962, options for 10,500 shares were granted, 15,139 shares were sold for \$154,245 to employees exercising their options and options for 1004 shares lapsed. At January 28, 1962, (after giving effect to stock dividends and a 3 for 2 split during the period) options for 49,928 shares at prices ranging from \$6.09 to \$28.10 a share were outstanding and 24,420 shares were reserved for future grants.

There have been no charges or credits to income with respect to the options.

NOTE H — CONTINGENT LIABILITIES. At January 28, 1962, the Company was contingently liable as endorser on \$902,500 of notes receivable that had been sold. These notes had been received on the sale of certain assets of the Company. The subsidiarles were contingently liable as guarantors of other notes and conditional sales contracts amounting to \$464,000.

NOTE I — LONG-TERM LEASES. The companies occupy certain premises under leases expiring more than three years from January 28, 1962, for which the aggregate minimum annual rentals approximate \$3,050,000 (including approximately \$500,000 for premises occupied by B. E. Enterprises, Inc.). Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. In addition the companies have executed leases for additional locations which were unoccupied at January 28, 1962. These leases provide for aggregate minimum annual rentals of \$1,630,000, including \$260,000 to be paid to Giant Realty, Inc. in connection with the properties mentioned in Note B.

The companies also are liable for annual rent of approximately \$390,000 in connection with the leasing of delivery and store equipment over periods ranging to January 1967.

The McDaniel's markets, which the Company is operating as explained in Note C, occupy premises under leases expiring more than three years from January 28, 1962, for which the aggregate minimum annual rentais approximate \$350,000.



BOARD OF DIRECTORS FOOD GIANT MARKETS, INC./SANTA FE SPRINGS, CALIFORNIA

We have examined the consolidated balance sheet of Food Giant Markets, Inc. and wholly-owned subsidiaries as of January 28, 1962, and the related statements of consolidated income and surplus for the period of fifty-six weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

On January 18, 1962, the Company entered into an agreement to issue 80,000 shares of its Common Stock in exchange for all of the outstanding capital stock of B. E. Enterprises, Inc. As explained in Note A to the financial statements, the accompanying balance sheet and related statements of income and surplus include the accounts of B. E. Enterprises, Inc. Gross assets and

net worth of this Company at February 3, 1962, amounted to \$3,970,918 and \$734,277 respectively, and net sales for the period of fifty-three weeks ended February 3, 1962, amounted to \$12,525,998. Such financial statements have been included herein as reported upon by its independent accountants.

In our opinion, accepting the aforementioned report of other accountants on the financial statements of B. E. Enterprises, Inc., the accompanying balance sheet and statements of income and surplus present fairly the consolidated financial position of Food Giant Markets, Inc. and wholly-owned subsidiaries at January 28, 1962, and the consoliated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California, April 17, 1962

ERNST & ERNST



